NAVAL POSTGRADUATE SCHOOL

MONTEREY, CALIFORNIA

MBA PROFESSIONAL REPORT

Financial Challenges and Responsibilities in the Management of the Navy Flying Hour Program at the Squadron Level

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By: Murat Sarisen
                    December 2007

Advisors: Lawrence R. Jones
                    Philip Candreva

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There have been numerous graduate research projects written about the Navy Flying Hour Program at the Department of Navy (DoN) level on down the chain of Command to the TYCOM level. But there is no research regarding the FHP in terms of how it is done and its affects and consequences at the squadron level

The primary purpose of this professional report is to bring to light the challenges faced by the squadron and the many obstacles that the Material Control Officer (MCO) has to overcome in meeting the demands set by Commander Naval Air Forces (CNAF) regarding the FHP. Due to the level of inexperience of Aviation Maintenance Officers graduating from Aviation Maintenance Officer School (AMO) who are tasked with the responsibilities as the squadron MCO, this professional report will serve as a reference source both at the micro (squadron) and macro (CNAF & DoN) levels of operation to increase understanding of the funds management process and, consequently, to improve such management.

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FINANCIAL CHALLENGES AND RESPONSIBILITIES IN THE MANAGEMENT OF THE NAVY FLYING HOUR PROGRAM AT THE SQUADRON LEVEL

Murat Sarisen, Lieutenant, United States Navy

Submitted in partial fulfillment of the requirements for the degree of

MASTER OF BUSINESS ADMINISTRATION

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December 2007

Author: _____
                 Murat Sarisen

Approved by: _____
                 Lawrence R. Jones
                 Principal Advisor

.
                 _____
                 Philip Candreva
                 Associate Advisor

                 _____
                 Robert N. Beck, Dean
                 Graduate School of Business and Public Policy

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FINANCIAL CHALLENGES AND RESPONSIBILITIES IN THE MANAGEMENT OF THE NAVY FLYING HOUR PROGRAM AT THE SQUADRON LEVEL

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I.   INTRODUCTION

A.   BACKGROUND

"Where are the carriers?" has been a question that is synonymous with every American President since Franklin Delano Roosevelt when faced with a developing international crisis that involves United States interest (Clancy, 1999, p. xi).

> In the second half of the 20th century, the aircraft carrier became a symbol of the U.S. position as a superpower. These massive ships had been essential to Allied victory in the Pacific during World War II, but afterward, they began to find a new important role as the "forward military presence" of the U.S., arriving first on the scene of trouble. Since 1946, when the USS Roosevelt was sent to Greece to symbolize support for the Pro-Western side during Greece's Civil War against the Communists, the carrier has shown up to warn potential enemies that America is watching. Former President Bill Clinton honored the carrier's importance when he said, "when word of crisis breaks out in Washington, it's no accident the first question that comes to everyone's lips is: "where is the nearest carrier?" Providing "forward presence", the aircraft carrier remains an extremely important part of America's power and image (Feltus, 2003, p. 1).

This quote from the U.S. Centennial Flight Commission essay sums up and highlights the importance of the aircraft carrier to U.S. National Security, Policy and Diplomacy. The reason the aircraft carrier is such a formidable force is because carrier aviation is inextricably tied to the concept of U.S. forward presence and power projection; the "From the Sea" doctrine (Clancy, 1999, p. xiii).

Carrier aviation is made up of a fleet of Navy squadrons that constitutes the carrier airwing. Each squadron operates on its own allotted budget granted on a quarterly basis from their Air Type Commanders (TYCOMs); Commander Naval Air Forces Pacific (CNAP) for West coast squadrons and Atlantic (CNAL) for East coast squadrons. The TYCOMs use the Navy Flying Hour Program (FHP) to operate, maintain, and deploy aviation forces that support the National Military Strategy (NMS). The FHP is funded through the Operation & Maintenance, Navy (O&M, N) appropriation to fund the

day-to-day operational activities or air operations, organizational and intermediate level maintenance, institutional training, unit training and operational training, and engineering and logistic support (OSD DoN Fiscal Year 2008/2009 O&M, N, 2007).

To ensure proper reporting of squadron expenditures, the TYCOMs require monthly Budget Operating Reports (BOR) to be complied and submitted via naval message traffic for accounting purposes. At the squadron level this task is the responsibility of the Material Control Officer (MCO).

B. PURPOSE

There have been numerous graduate research projects written about the Navy Flying Hour Program at the Department of Navy (DoN) level on down the chain of Command to the TYCOM level. But there is no research regarding the FHP in terms of how it is done and its affects and consequences at the squadron level

The primary purpose of this professional report is to bring to light the challenges faced by the squadron and the many obstacles that the Material Control Officer (MCO) has to overcome in meeting the demands set by Commander Naval Air Forces (CNAF) regarding the FHP. Due to the level of inexperience of Aviation Maintenance Officers graduating from Aviation Maintenance Officer School (AMO) who are tasked with the responsibilities as the squadron MCO, this professional report will serve as a reference source both at the micro (squadron) and macro (CNAF & DoN) levels of operation to increase understanding of the funds management process and, consequently, to improve such management

C. RESEARCH QUESTIONS

This project addresses the following research questions:

1. Primary Research Question

What is the squadron's role and responsibilities regarding the Navy Flying Hour Program?

2. Secondary Research Questions

What are the responsibilities and primary tasks of the squadrons Material Control Officer related to financial management and management of the FHP?

D. METHODOLOGY

The primary source of data collection for this study was through interviews with various members assigned to Electronic Attack Squadron 138 (VAQ-138). These included the current MCO, Operations Officer and enlisted supply personnel assigned to the Material Control division. The remainder of data was collected through the review of numerous publications on the Navy FHP, U.S. Budget procedures and processes, Navy and Government reports, Navy instructions, Naval Postgraduate School Thesis and other related research papers and articles.

E. CHAPTER OUTLINE

This MBA Professional Report contains four chapters.

Chapter I presents the background and purpose along with research questions and methodology.

Chapter II provides the procedures and processes of the U.S. Federal Government Budget process, Department of Defense (DoD) funding to include the Planning, Programming, Budgeting, and Execution System (PPBES) and the Navy Flying Hour Program.

Chapter III provides an analysis of squadron procedures in meeting the demands of the FHP with emphasis on the responsibilities of the MCO.

Chapter IV answers the project research questions presented in chapter I of the report and provides a recommended topic for further research.

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II.   THE FEDERAL BUDGET, DOD FUNDING AND NAVY FLYING HOUR PROGRAM PROCESS

A.   INTRODUCTION

The Material Control Officer (MCO) having been tasked with the squadron's financial responsibilities should have an understanding of how funds are allocated to the squadron. A macro-view of the federal government budget process, DoD funding process and CNAF (command in charge of the Navy FHP) procedures is advantageous and beneficial in the day-to-day activities of the MCO. This chapter will briefly describe and highlight the process and procedures of the federal government budget, DoD funding and the Navy FHP. How a Navy squadron receives funding from the President's budget on down will be reviewed and explained to better understand the importance of the squadron's financial procedures and the regulations they have to abide by.

B.   FEDERAL BUDGET

Keith and Schick (2003, p. ix) in their book titled, The Federal Budget Process, state that budgeting for the federal government is an enormously complex process entailing dozens of sub processes, countless rules and procedures, the efforts of tens of thousands of staff persons in the executive and legislative branches, millions of work hours each year and the active participation of the President and congressional leaders along with other members of congress and executive officials. No matter how difficult the choices or how uncertain the outlook, the president must submit a budget and Congress must make appropriations (Schick, 2000, p. 1).

The federal budget process ends each year with the submission of the Presidents annual budget, officially known as the Budget of the United States Government, to Congress on the first Monday in February but actually begins in the spring of the previous year with the formulation of budget estimates by each government agency. The executive budget estimates spending, revenues, and other financial amounts for the next five or more fiscal years, contains policy and legislative recommendations consistent with

those estimates, presents data on the actual and projected performance of the economy, and provides detailed information on the finance of federal agencies and programs (Schick, 2000, p. 74). However, the executive budget submitted to Congress is only a request on how the budget should be executed. Each part of the President's budget is broken down and scrutinized by Congress through committees and sub-committees in both the House and Senate as depicted in Figure 3. At the end of the Congressional process the Budget Appropriations Bill is passed sending the Bill to the President for his signature, making the bill law.

The President's budget is compiled and executed by the Office of Management and Budget (OMB), previously known as the Bureau of the Budget established by the Budget and Accounting Act of 1921. The basic requirement of the Budget and Accounting Act is that the President prepares and submits a budget to Congress each year and OMB assists the President in preparing and implementing the executive budget (Keith & Schick, 2003, p. 47).

> In the executive branch, OMB is the hub of the federal budget process. Its chief mission is to assist the President by overseeing the preparation of the budget and its submission to Congress, and to supervise its administrative and implementation by the executive agencies. In doing so, OMB helps set funding priorities, assesses competing funding demands among agencies, and evaluates the effectiveness of agency programs. OMB seeks to ensure that the legislative proposals and congressional testimony of agencies, as well as agency reports and rules, are consistent with the President's budget recommendations and administrative policies (Keith & Schick, 2003, p. 48).

Government agencies receive instructions and guidance from OMB through publications in the form of Circulars, Bulletins, Regulations and Paperwork, Financial Management Policies and Federal Register Submissions. OMB and government agency procedures are broken down as follows:

- OMB Circular A-11 is the Budget Preparation Instruction
- OMB Guidance Letter to Agencies (Winter)
- Agencies begin Budget Development (Spring)
- OMB Agency Policy Direction, Hearings and Negotiations (Summer)

- Agencies Submit Budget Request (Fall)
- OMB Review and Pass Back (November-December)
- Final Budget Development, Agency Appeals, New Policy Developments (December-January)
- President's Budget Submitted to Congress (Brook, 2007a, Slide 24).

The nearly $3 trillion dollar budget of the United States is broken down as Figures 2 & 3 depict just how federal revenue is gained and federal outlays or spending is accomplished.

Federal Revenues by Source, FY2006
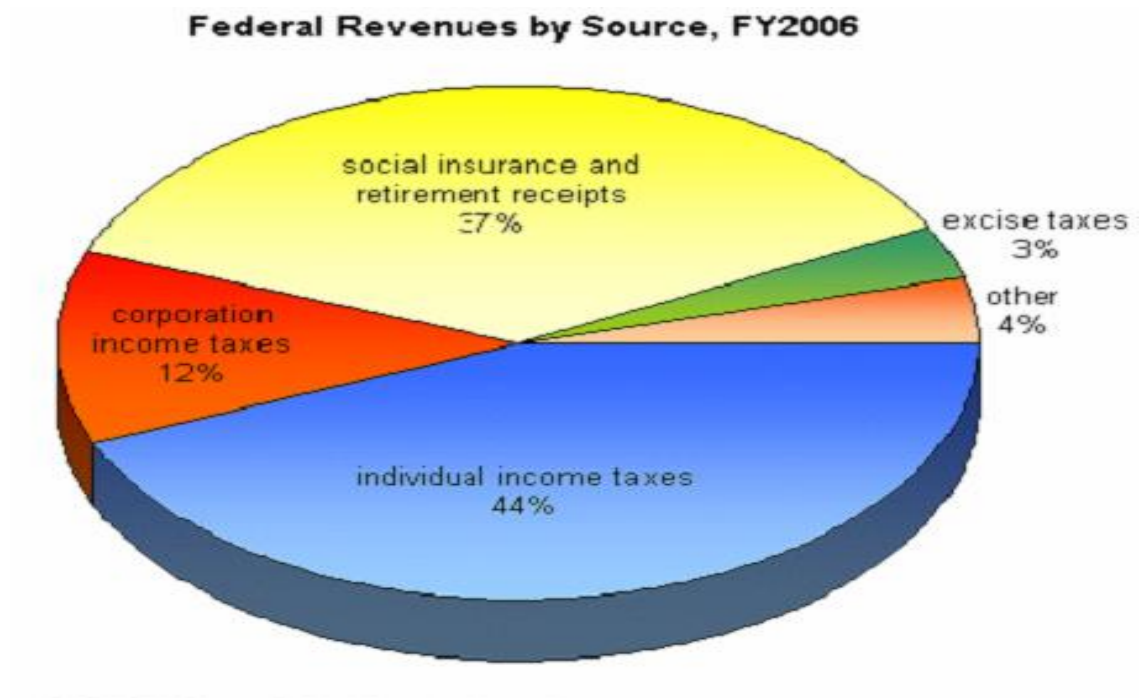
Figure 1.   Where $3 Trillion Dollars Come From (From Brook, 2007a, Slide 7)
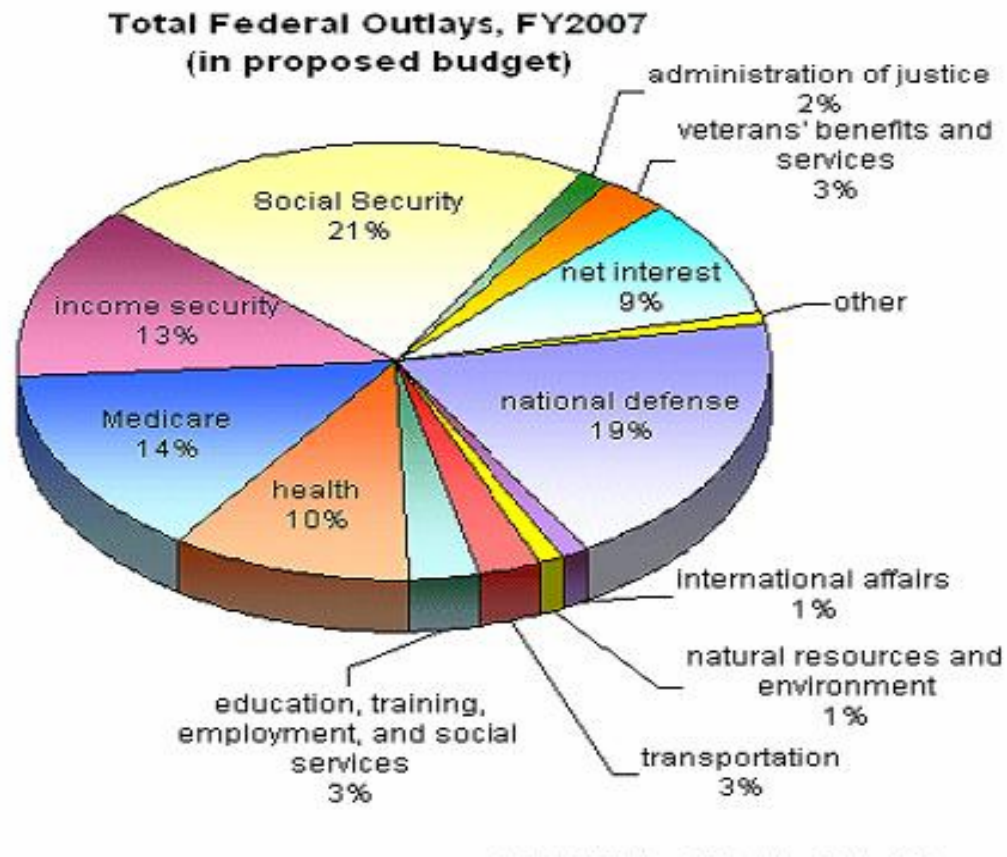
Figure 2.   Where $3 Trillion Dollars Go (From Brook, 2007a, Slide 5)

The founding fathers of the United States Constitution formed three independent branches of government, the Executive, Legislative, and the Judicial Branch.   Their objective was two fold, first the separation of powers was designed to restrain the power of any one branch. Second was to ensure that cooperation would be necessary for effective government (Oleszek, 1996, p. 2). Due to this separation of powers they gave "Power of the Purse" to Congress as stated in Article 1, Section 9 of the U.S. Constitution; No money shall be drawn from the Treasury, but in Consequence of Appropriations made by law; and a regular Statement and Account of the Receipts and Expenditures of all public money shall be published from time to time; forcing checks and balances between the branches of government and by nature, delaying the budget process.

Once the President's budget is submitted, Congress, through committees and subcommittees examines the Presidents budget in its entirety and never appropriates the Presidents budget as it is due to the checks and balances between the two branches of government, and the "Power of the Purse" given to Congress. Congress then writes separate authorization and appropriation bills that may include substantial changes to what the President proposed, votes to approve these huge bills (typically there are 13 separate appropriation bills alone) and sends them to the President for his signature or veto (McCaffery & Jones, 2004, p. 31). Legislative products that affect the budget as depicted in Figure 3 are the following (McCaffery & Jones, 2004, p. 32-34):

Between the first Monday in January and first Monday in February

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THE PRESIDENT sends his BUDGET to CONGRESS
```

Six weeks later

THE STANDING COMMITTEES OF THE HOUSE AND SENATE
Recommend budget levels and report legislative plans to

HOUSE BUDGET COMMITTEE
Initiates

SENATE BUDGET COMMITTEE
Initiates

```
CONCURRENT RESOLUTION ON BUDGET
• Levels for total receipts
• Levels for budget authority and outlays
• Levels for budget deficit/surplus and debt
```

HOUSE VOTE ON RESOLUTION   **SENATE VOTE ON RESOLUTION**

CONFERENCE COMMITTEE
Resolves differences between them

HOUSE VOTE ON RESOLUTION   **SENATE VOTE ON RESOLUTION**

```
April 15: Action completed on resolution

May 15: Authorizing committees report and Congress votes on authorizing legislation
```

HOUSE APPROPRIATIONS COMMITTEE
Allocates budget authority and outlays to:

SENATE APPROPRIATIONS COMMITTEE
Allocates budget authority and outlays to:

APPROPRIATIONS SUBCOMMITTEES
Which report back to:

APPROPRIATIONS SUBCOMMITTEES
Which report back to:

APPROPRIATIONS COMMITTEES
Which report back for:

APPROPRIATIONS COMMITTEES
Which report back for:

HOUSE FLOOR VOTES ON
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13 APPROPRIATIONS BILLS
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SENATE FLOOR VOTES ON
```
13 APPROPRIATIONS BILLS
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CONFERENCE COMMITTEE
Resolves differences between them

HOUSE VOTE   **SENATE VOTE**

```
THE PRESIDENT SIGNS OR VETOES APPROPRIATIONS BILLS
```
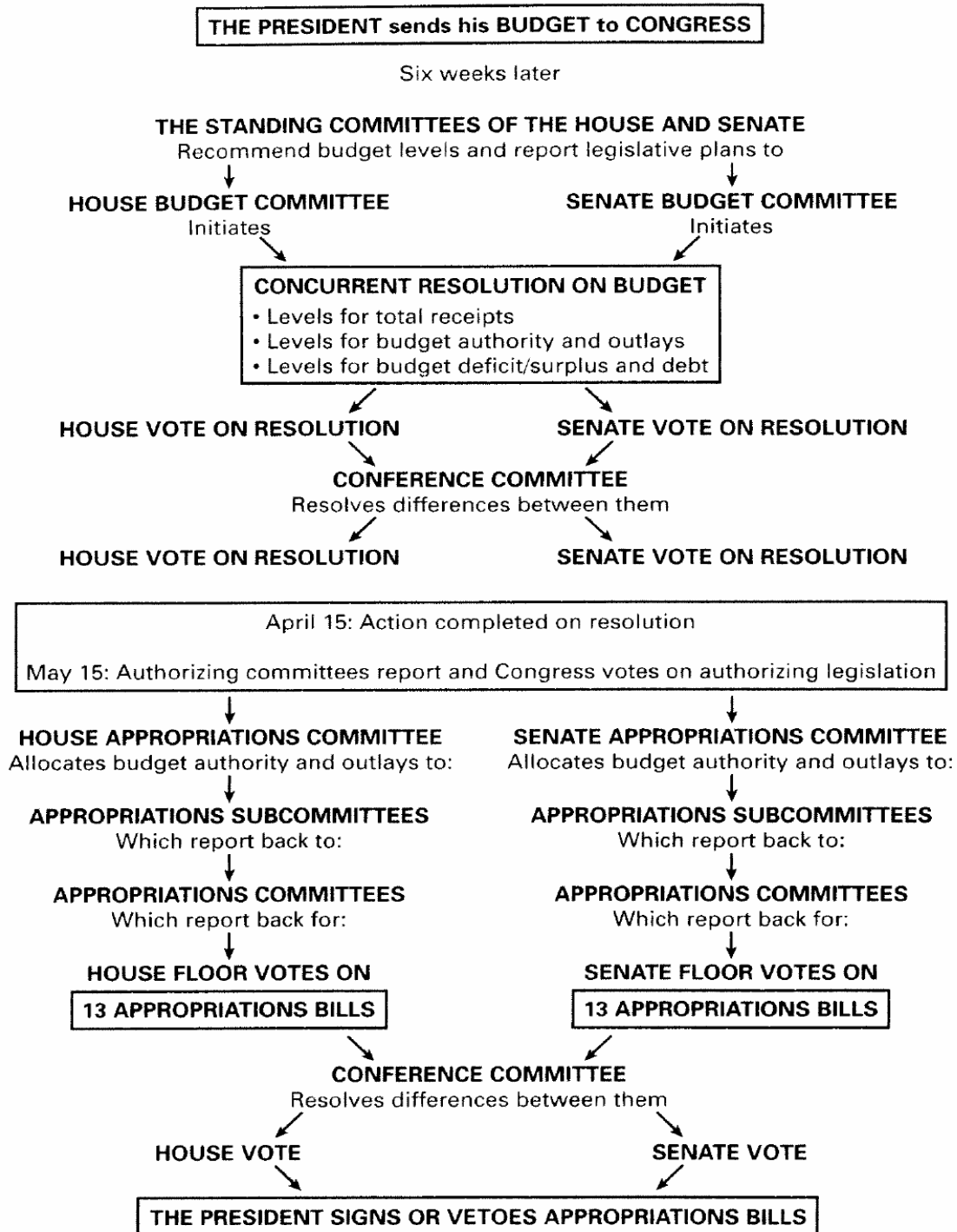
Figure 3.   The Budget Process (From Wildavsky & Caiden, 2004, p. 6)

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- Concurrent Resolution on the Budget: The budget resolution sets aggregate spending and taxing totals and estimates the resulting deficit and surplus. The budget resolution is a plan; once it is adopted, Congress tries to stick to it through a "scorekeeping" mechanism. The appropriation committees take the amounts allotted to them by the budget resolution and divide them up among the subcommittees that produce appropriation bills. The rules of Congress call for the budget resolution to be reported out of the Senate budget committee by 1 April and to be passed by both chambers by 15 April, though it rarely is.

- Reconciliation Bills: A reconciliation instruction may be added to the budget resolution to affect tax or mandatory spending changes. When this is done, it results in a reconciliation bill drafted by various committees at the direction of the budget committee and submitted to Congress by the Budget Committees.

- Appropriation Bills: Discretionary spending for the federal government is provided by 13 annual appropriation bills, including the defense appropriation bill and the military construction bill.

- Continuing Resolution Appropriation (CRA): When a new appropriation has been passed and the fiscal year is about to begin, Congress passes a CRA to cover the gap. The CRA provides agencies with budget authority to operate in the interim. The amount of money provided may be the current rate or an amount set in a bill passed by one of the chamber or one committee in one chamber.

- Authorization Bills: Authorization Bills create programs. They establish the department and its mission and any changes to it. An authorization bill does not make money available; only appropriation bill does this.

- Supplementals: Supplemental appropriations occur when emergency needs dictate, for natural disasters and for defense needs, such as the $48 billion supplemental passed after September 11, 2001.

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Once the President signs the appropriation bill, OMB apportions funds to the individual departmental agencies who then allot further on down to their subunits which in turn allocate appropriated funds to lower administrative levels, i.e., OMB apportions funds to DoD who allots funds to the Chief of Naval Operations (CNO) who then allocates funds to CNAF for the FHP.

C.   DOD FUNDING AND THE PPBES PROCESS

This section briefly addresses the DoD funding procedures and the PPBES process to better understand how funding is eventually provided for the Navy FHP. The budget that the President sends to Congress on the First Monday in February contains the DoD budget that the Office of the Secretary of Defense (OSD) and OMB worked together to review before including it in the Presidents budget. OMB staff work at the Pentagon and are involved not only in the budget review, but also in development and review of program structure in the Program Objective Memorandum (POM) phase of the PPBES process where resource planners decide what program structure needs to be maintained, improved, created, or deemphasized to meet changes in the threat (McCaffery & Jones, 2004, p. 6). The defense budget is, in its entirety, to big for OMB to review alone and requires the assistance of OSD before implementing the defense budget in the Presidents budget to Congress.

The DoD utilizes the Planning, Programming, Budgeting and Execution System (PPBES) to articulate strategy, set programming priorities, and allocate resources (Jarvis, 2006, p. 7). The PPBES process is complex, confusing and can best be described by the following quote by President Ronald Reagan:

> We start by considering what must be done to maintain peace and review all the possible threats against our security. Then a strategy for strengthening peace and defending against those threats must be agreed upon. And, finally, our defense establishment must be evaluated to see what is necessary to protect against any or all of the potential threats. The cost of achieving these ends is totaled up, and the result is the budget for national defense (Brook, 2007c, slide 21).

The purpose of PPBES is to provide a systematic and structured approach allocating resources in support of the national security strategy of the U.S. The ultimate goal of the entire PPBES process is to provide the military Commanders in Chief with the best mix of forces, equipment, and support attainable within resource constraints (McCaffery & Jones, 2004, p. 97).

1. Planning

The planning phase begins with the National Security Strategy (NSS) developed by the executive branch where the National Defense Strategy (NDS) is outlined. The National Military Strategy Document (NMSD) is produced by the Joint Chiefs of Staff (JCS) on how to fulfill the executive branches NSS along with producing the Chairman's Program Recommendation (CPR) as a follow up to the NMSD for the Secretary of Defense (SecDef). The Defense Planning Guide (DPG); a map for the military to produce their respective Program Objective Memorandum (POM), and the Future Year Defense Plan (FYDP); a six year projection of department wide force structure requirements; is ultimately drafted and issued by the SecDef (McCaffery & Jones, 2004, p. 98). Figure 5 below depicts the key departments or actors involved in the DoN Planning Phase.
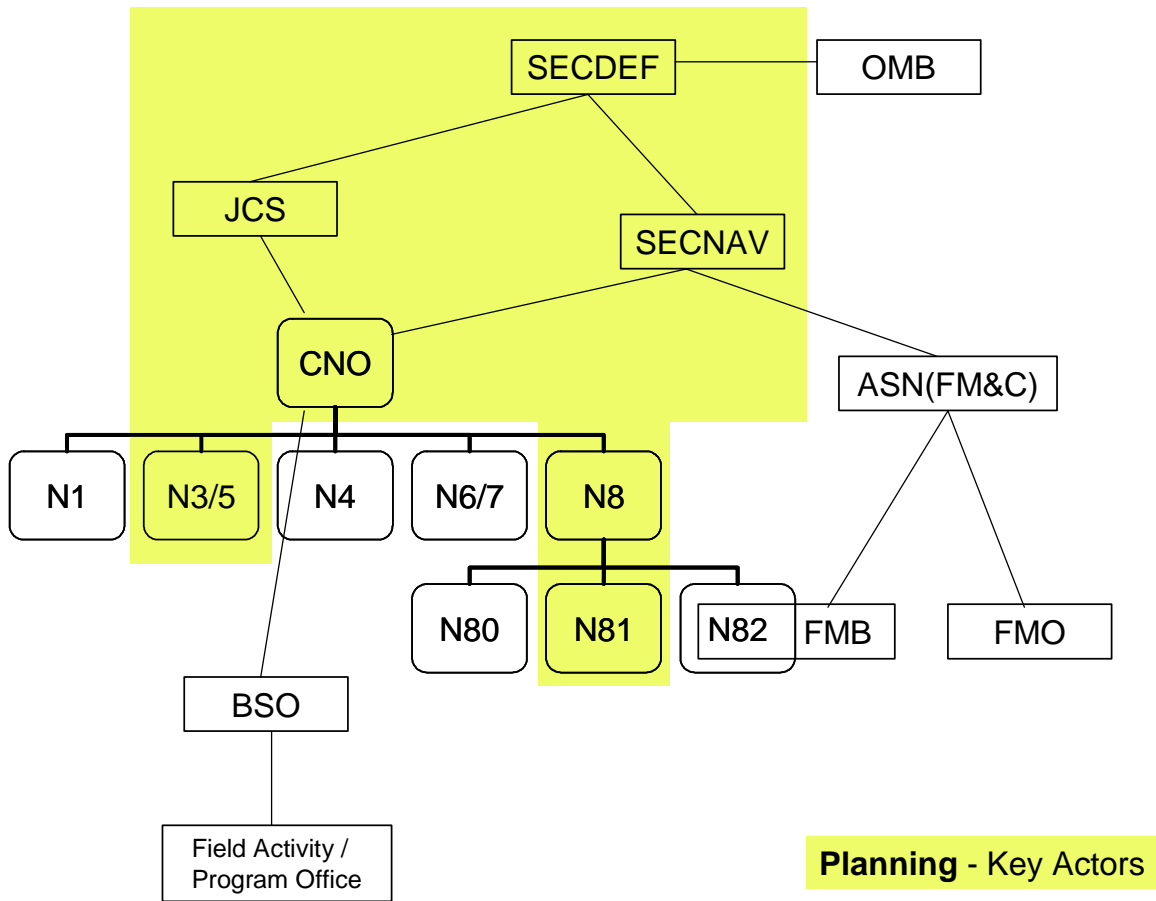
Figure 4. Planning Phase Key Actors (From Brook, 2007b, Slide 5)

2.   Programming

The programming phase is where each military component produces a POM to address the allocation of resources over the six year FYDP period while meeting the requirements of the DPG within the financial limitations set by OSD.   Military department and service POMs are reviewed by JCS to ensure compliance with the NMSD and DPG, assessing force levels, balance, and capabilities.   Following the review, Chairman of the Joint Chiefs of Staff (CJCS) issues the Chairman's Program Assessment (CPA) to influence the SecDef decisions delineated in the Program Decision

Memorandum (PDM) marking the end of the programming phase (McCaffery & Jones, 2004, p. 100). Figure 6 below depicts the key departments or actors involved in the DoN programming phase.

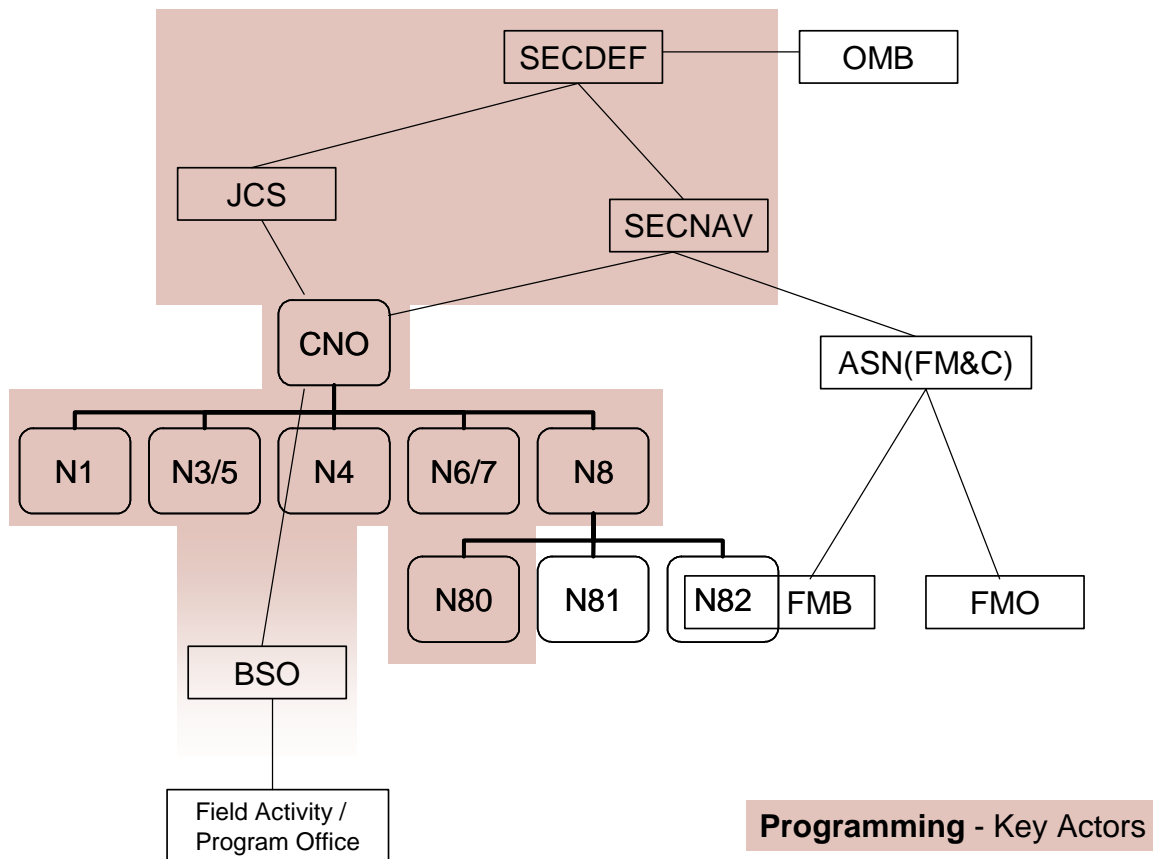**Figure 5.   Programming Phase Key Actors (From Brook, 2007b, Slide 6)**

3.   Budgeting

The budgeting phase begins with the approved programs in each military service POM where each military component costs out the items that support its POM for the budget year and submits its part of the budget as its Budget Estimate Submission (BES). Every BES is reviewed by military secretaries under the authority of the military department secretaries which are then reviewed by DoD Comptroller, other OSD

officials, the JCS, and ultimately by the Deputy and Secretary of Defense (McCaffery & Jones, 2004, p. 101). These reviews are conducted so that they meet the criteria of the Presidents NSS, DPG and the PDM where if changes are needed to be made, OSD provides the Program Budget Decisions (PBD). The PBD is only a draft that allows the military departments a chance to appeal and or reclama. The reclama is a justification by the program sponsor in response to the marks made by the analyst in the PBD. The PBD analyst can take three courses of actions: 1) approve exhibits as presented, 2) disapprove portions of exhibits by issuing a "mark", or 3) approve additional funds where shortfalls are detected (Jarvis, 2006, p. 12). The budgeting phase is completed with the submission of the DoD budget to OMB to be included in the President's budget. Figure 7 below depicts the key departments or actors involved in the DoN budgeting phase.
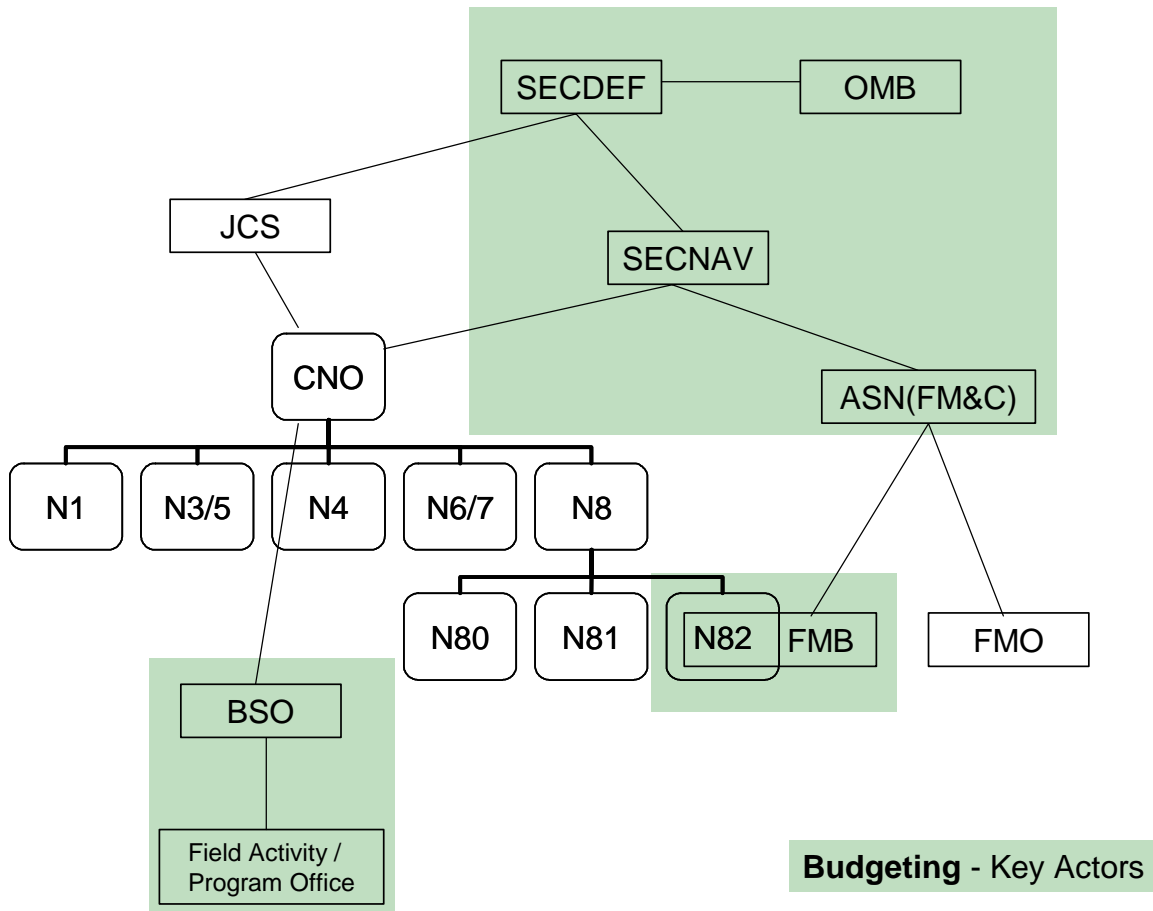
Figure 6.   Budgeting Phase Key actors (From Brook, 2007b, Slide 7)

4.   Budget Execution

After the President signs the appropriations bill sent from Congress, DoD is required to complete an allotment process before any spending can take place. This process indicates how DoD will spend the appropriated funds, by month, quarter, or by fiscal year for longer programs in a multiyear cycle. After allotment approval is received from OMB and the Treasury, DoD begins the process of separating and distributing shares of the DoD budget to the military departments and services and other DoD commands and agencies (McCaffery & Jones, 2004, p. 102). During the current year while obligations and outlays are being conducted by the services, military departments in charge of allocating funds to subunits also conducts a midyear review. The midyear

review allows the military departments to shift funds around to where they are needed most. Figure 8 depicts below depicts the key departments or actors involved in the DoN budget execution phase.
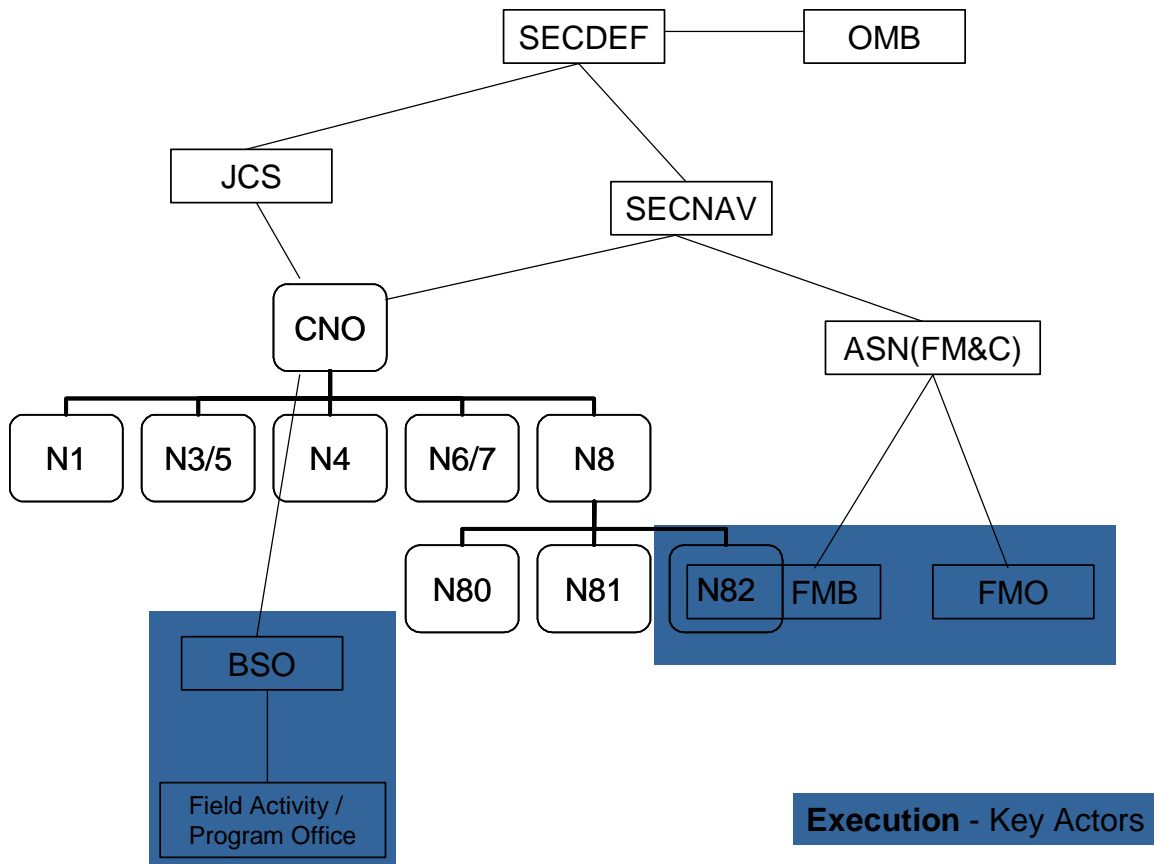
Figure 7.   Execution Phase Key Actors (From Brook, 2007b, Slide 8)

This section briefly discussed the DoD funding process and the Planning, Programming, Budgeting and Execution System. Table 1 below breaks down each phase of the PPBES process and includes the output that each phase produces.

Phases of the PPBES

Planning	Programming	Budgeting	Execution
	Concurrent		
• Assess Threat • Develop Strategy	• Develop 6-Year Plan	• Emphasize first 2 years of 6-Year Plan	• Current Year Obligations and Outlays
Outputs • National Military Strategy (NMS) • Strategic Planning Guidance (SPG) • Joint Programming Guidance (JPG)	Outputs • Program Objective Memoranda (POM) • Future Years Defense Program (FYDP) • Program Decision Memoranda (PDM)	Outputs • Budget Estimate Submission (BES) • Program Budget Decision (PBD) • President's Budget (PB)	Outputs • Allotment Review • Midyear Review

Table 1.   Phases of the PPBES (From Jarvis, 2006, p.13)

D.   OVERVIEW OF THE NAVY FLYING HOUR PROGRAM

The Navy Flying Hour Program funds the day to day operational activities or air operations, organizational and intermediate maintenance, institutional training; unit training and operational training, and engineering and logistic support to operate, maintain and deploy aviation forces that support the National Military Strategy (OSD DoN FY 2007 Budget Estimates Submission, 2006). The FHP is part of the Operation and Maintenance, Navy (O&M, N) appropriation and is the Navy's largest budget as shown in Figure 9 where the FHP constituted over $4.7 billion dollars in fiscal year (FY) 2006. The O&M, N appropriation finances the day to day costs of operating naval forces, including fuel, supplies, and maintenance of ships, Navy and Marine Corps aircraft, related weapon systems, and the support establishment ashore (OSD DoN Fiscal Year 2008/2009 Budget Estimates O&M, N, 2007). In FY 2006, O&M, N received $35 billion

dollars as shown in Figure 10 out of $122.9 billion dollars allotted to DoN from the DoD budget. The four major claimants or Air Type Commanders (TYCOMs), also known as Budget Submitting Offices (BSO) that received these funds for the FHP are Commander Atlantic Fleet (COMLANTFLT), Commander Pacific Fleet (COMPACFLT), Commander Naval Forces Europe (COMNAVEUR), and Commander Naval Reserve Forces (COMNAVRESFOR) (Jarvis, 2006, p. 13).

N432 Resource Sponsorship

FY06 Program Summary
TOA $6.8 Billion

FY06	$M
FHP	$4,770
AIMD	$72
Air Ops/Safety	$115
Aircraft Depot Maint	$1,185
Equipment Maint	$118
Air Systems Support	$484
Aircraft Depot Ops	$28
	$6,793

Pie chart labels: AIMD 1%, Air Ops/Safety 2%, Aircraft Depot Maint 17%, Equipment Maint 2%, Air Systems Support 7%, Aircraft Depot Ops 0.4%, FHP 71%
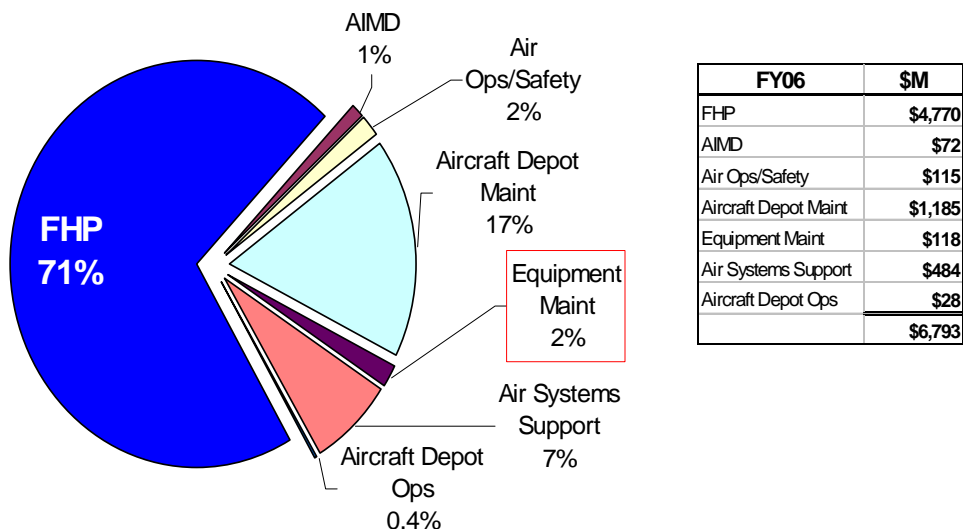
Figure 8.   FY 2006 FHP (From OPNAV N432 Aviation readiness Branch, 2006)
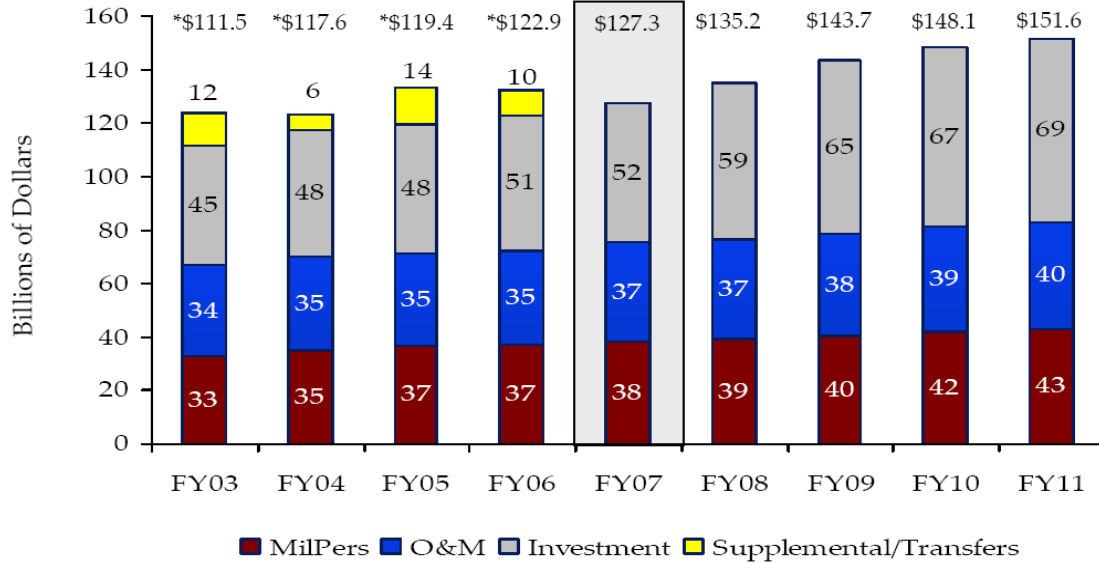
Figure 9.   FY 2007 DoN Budget (From Department of the Navy FY 2007 President's Budget)

The funding for the FHP comes from the O&M, N appropriation and is further broken down; for accounting purposes, into activity groups (AG's) and sub-activity groups (SAG's). The Aircraft Flight Operations (AFO) also known as Operational Target Function Categories (OFCs) or Operating Targets (OPTARs) and the Aircraft Operations Maintenance (AOM) are the primary SAG for the FHP. The OPTARs in the SAG are further divided into two OFCs, OFC-01 and OFC-50 as Figure 11 shows (Jarvis, 2006, p16).

> OFC – 01: is for organizational/squadron level of funding. It consists of fund codes 7B for aviation fuels and 7F for flight equipment and administrative supplies in direct support of flight operations and aircraft maintenance.

> OFC – 50: is for Intermediate Maintenance Activity (IMA) and organizational Maintenance Activity (OMA) level of funding. These funds support Navy and Marine Aircraft Groups, Naval Air Station Aircraft Intermediate Maintenance Department, and aircraft carrier (CV) class ships maintenance departments. It consists of fund codes 9S for Aviation Depot Level repairable (AVDLR) and 7L for Aviation Fleet Maintenance (AFM).

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Squadron FHP "OPTAR"   **Air Station "Operating Budget" & CV "OPTAR"**

OFC-01 (AFO)   OFC-50 (AOM)

• 7B: Fuel
• 7F: Flt Equip.

AFM   AVDLR

Fund Codes   • 7L "Consumables"   • 9S "Repairables"
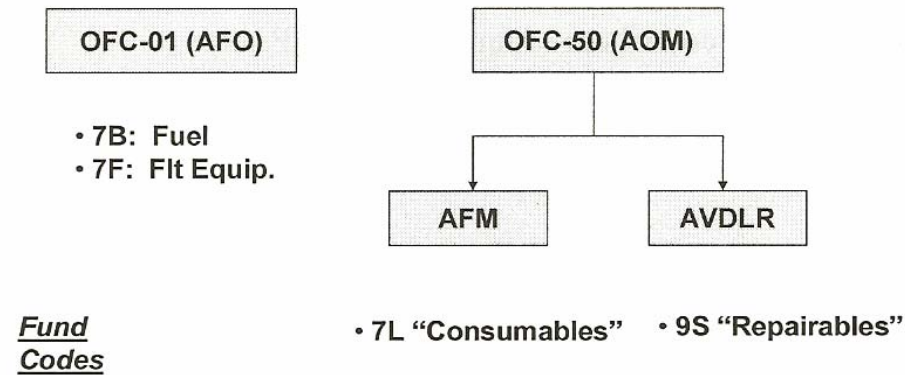
Figure 10. FHP Funding Composition (From Jarvis, 2006, p. 17)

The budget for the FHP is compiled from the Flying Hour Projection System (FHPS) which is a model that captures, stores, tracks, and projects FHP costs, flight hours, and aircraft inventory to produce required budget exhibits (Jarvis, 2006, p. 25).

> The FHPS is utilized with the Planning, Programming, and Budgeting System to establish and justify FHP requirements in the Department of Navy's Budget. The FHPS produces a primary product called the Operational Plan-20 (OP-20) Budget Exhibit which depicts: budgeted flight hours; a cost breakout AFO, AVDLR, and other AOM costs in terms of a projected average fleet-wide Cost Per Flight Hour (CPH); and annual costs for each type/model/series (T/M/S) aircraft assigned to specific program elements within budget activities (COMNAVAIRPAC Instruction 7305.1, 1986, Encl 4).

Three schedules support the OP-20 budget exhibit displaying number of aircraft, crew seat ratios, crews, and required versus budgeted flight hours. Schedule A covers Tactical Air (TACAIR), Schedule B covers Fleet Air Training (FAT), and Schedule C cover Fleet Air Support (FAS).

- Schedule A: Funds all navy and Marine Corps deployable squadrons that serve as the operating forces ready to support national objectives.

TACAIR requirements state the minimum number of flight hours needed to maintain the appropriate training/combat readiness level (Jarvis, 2006, p. 14).

- Schedule B: Funds the Navy and Marine Corps training squadrons, known as Fleet Replacement squadrons (FRS), after completion of basic flight training. It also funds the Naval Strike and Air Warfare Center (NSAWC) which is the primary authority on training and tactics development (Jarvis, 2006, p. 15).

- Schedule C: Provides fleet tactical, strategic and other miscellaneous direct and indirect support (including logistics) to Navy and Marine Corps operating forces and shore establishments. FAS funds the flight hours for squadrons in the combat support role (Jarvis, 2006, p. 15).

The TYCOMs mentioned above receive funding for the FHP which they allocate on down to the squadrons, aircraft carriers, and naval air stations that fall under their command in the form of OFC-01 and OFC-50 OPTARs. As these commands incur obligations and make outlays, it is recorded in a Flying Hour Cost Report (FHCR) via the squadrons, carriers, and naval air stations Budget Optar report (BOR) submitted to their TYCOMs on a monthly basis. The FHCR is the key source for cost data for future FHP budgets (Jarvis, 2006, p.17). The BOR will be explained further in the next chapter regarding the financial reporting procedures of a West coast squadron assigned to Commander Naval Air Forces, Pacific.

E.   CONCLUSION

This chapter briefly discussed and provided background information on the federal budget process, DoD funding and the PPBES process, and an overview of the Navy FHP. In order to understand the next chapter regarding the responsibilities of the Material Control Officer (MCO) it is necessary to cover how funding is broken down and allocated to the squadrons. If further in-depth information is required on the material covered in chapter II there are numerous NPS thesis and graduate research projects

available regarding the Navy FHP as well as books on the federal and DoD budget process and procedures, many of which are cited in this report.

III. SQUADRON PROCEDURES AND THE MATERIAL CONTROL OFFICER RESPONSIBILITIES

A. INTRODUCTION

Chapter II briefly covered the federal budget process, the DoD funding process and an overview of the Navy FHP. Chapter III will introduce the Material Control Officer (MCO) and evaluate the procedures within a Navy squadron with regard to the management of Navy FHP, the rules and regulations that a squadron must abide by in the daily operations to track and execute the squadrons OPTAR, and how to submit a proper end of month Budget Optar Report (BOR) for accounting purposes.

B. MATERIAL CONTROL OFFICER (MCO)

The MCO within a squadron maintenance department is in charge of the Material Control Division which is made up of the squadrons supply personnel. The responsibility of Material Control is to provide material support to their cognizant organizations and coordinate indirect material requirements to ensure the material ordered is the material required and delivered to the work centers (NAMP, 2005, Vol. I, p. 12.3.1). Material Control shall:

- Establish delivery/pickup points for material ordered.

- Maintain liaison with the supporting Aviation Support Division (ASD) on maintenance material matters to ensure the material needs of the organization are satisfied.

- Prepare documents for material required for operational support.

- Furnish information to the Supply activity on the identity and quantity of material.

- Establish procedures to ensure proper operation of tool rooms and the performance of tool inventories.

- Ensure surveys are prepared in the event of loss, damage, or destruction of accountable material.

- Perform memorandum OPTAR funding, accounting, charting and budgeting of costs.

- Maintain adequate accountability of material and equipment on custody.

- Maintain inventory control of authorized allowances of material listed in the Individual Material Readiness List (IMRL) and authorized allowance lists.

- Validate Non-Mission Capable Supply and Partial Mission Capable Supply (NMCS/PMCS) requisitions daily and maintain current NMCS/PMCS status records.

- Perform an inventory of aircraft, with technical assistance, upon receipt or transfer to ensure inventory log entries are made and inventory shortage listings are prepared and forwarded to Maintenance Control for inclusion in the AIR or Aircraft Inventory Record (NAMP, 2005, Vol. I, p. 12.3.1).

Among the listed responsibilities of Material Control, the MCO is also the squadron Tool Control Program Manager (TCP), Individual Material Readiness List (IMRL) program manager and is in charge of managing and executing the squadron's budget OPTAR.

> Although COMNAVAIRPAC retains complete legal responsibility for all obligations incurred, Commanding Officer's (CO's) are responsible to COMNAVAIRPAC for the effective and efficient use of funds…..CO's are expected to exercise management control of OPTAR funds as vigorously as they would as allotment involving legal constraints and penalties. A high degree of planning and administrative control is required to ensure that material requirements are satisfied and that authorized OPTAR's and Operating Budgets (OB's) are not exceeded (COMNAVAIRPAC Instruction 7310.2A, 1991, p. 4).

The responsibility of the squadron OPTAR is delegated to the MCO by the CO and is the most important task that the MCO has where accurate tracking and reporting of squadron financials on a monthly basis is required. The end of month squadron Budget OPTAR Report (BOR) is the culmination of all squadron financial activities in a given month, recorded and submitted to their respected Air Type Commanders (TYCOMs) and Defense Finance and Accounting Services (DFAS) via Naval Message Traffic for accounting purposes.

C.   BUDGET OPTAR REPORT (BOR)

At the beginning of the fiscal year (FY) in October, the squadrons receive their quarterly OPTAR grants and scheduled due dates for when their BOR's and 7F Transmittals (TL) are to be submitted via Naval message traffic. The due dates specify the exact day of the month that a BOR and TL are to be submitted and list them for the entire FY. The 7F TL covers all the requisitions that the squadron has made during a specific week and has four submission dates in a month, where the BOR only has one due date per month. The BOR is a summary of squadron financial activities that categorizes obligations by aircraft type and includes the following (Philips, 2001, p.20):

- Obligation totals by fund code for OFC-01 and OFC-50 for that month.
- Total gallons and type of fuel (e.g., JP-4/5) consumed for the month and fiscal year to date (FYTD).
- Flight hours flown for the month and FYTD.
- Number of aircraft assigned by Type/Model/Series (T/M/S) and Type Equipment Code (TEC).
- Remaining OPTAR grant balance for the squadron.

Figure 12 is a sample BOR used as a template to formulate the squadron's BOR. The Material Control division checks and cross checks this information throughout the month ensuring that all the data that comprises the BOR is accurate and reflects actual squadron expenditures. These checks and balances include:

- NALCOMIS OMA Aircraft Flight Summary Report.
- Comparing Flight Hours Flown with the Operations Officers records.
- Verifying fuel documents via the Fuel Automated System (FAS) website and fuel receipts from station customer service department.
- Validating the Summary Filled Order/Expenditure Difference Listing (SFOEDL) for 7F and 7B charges.

These four controls are further examined in detail:

7B   7F   Flt. Hrs.   7B+7F

PTTUZYUW RHWIPWE0424 1520910-UUUU--RHMCSUU RHWIDIN RHWIPWE.
ZNR UUUUU
P 010910Z JUN 01 ZYB   FYTD Totals   SFOEDL Difference (only 7F)
FM VAQRON ONE TWO EIGHT
TO COMNAVAIRPAC BOR SAN DIEGO CA//N01F//
INFO COMVAQWINGPAC WHIDBEY ISLAND WA//N3//   Month Flt. Hrs.
BT
UNCLAS//N07300//
MSGID/GENADMIN/VAQ-128//   Total of (22) + (23)
SUBJ/BUDGET OPTAR REPORT//
RMKS/1.   PARA 1. MAY/P55676/70AE/57025/2001/OEC01//   TEC   # A/C in Reporting   FYTD Flt. Hrs.
(21)   (22)   (23)   (24)   (25)   (26)   (27)   (28)
7B   1,177,673.98   0.00   1,177,673.98   AAED   4   167.5   1,100.0
7F   32,425.75   190.42   32,616.17   AAED   0.0   0.0
TTL 1,210,099.73   190.42   1,210,290.15   4   167.5   1,100.0
29.   FUND CODE RECAP 7B   1,177,673.98   FYTD Fund Totals (Recap of Column 22)
                      7F   32,425.75
30.   TL 22/1   TL 23/1   TL 24/1   TL1 + TL2 + TL3 = 7F Monthly Total
      236.51   542.34   417.96   7B = Fuel Monthly Total
      7B   TOTAL   Total = 7F + 7B Monthly Total
      177,642.84   178,839.65
31.   OPTAR GRANT FYTD   7B   1,250,699.00   FYTD Grant Amounts (Check Msgs. to
                         7F   52,500.00   verify grant totals and any adjustments)
                      TOTAL   1,303,199.00
32.   APR 2001   Last Monthly SFOEDL received
33.   APR 2001   Last SFOEDL difference posted to OPTAR Log
34.   TEC   A   B   C
      AAED   COMM   0   346,167   A = Fuel Type
      AAED   INTO   3,533   3,533   B = Gallons for the month
      AAED   JP-5   1,564   3,277   C = Gallons FYTD
      AAED   JP-8   169,397   791,460
35.   N/A   MO/YR of last AOUL (Aged Order Unfilled Listing
36.   N/A   Listing of SFOEDL challenges
37.   HUNT D. R./ENS/USNR/MCO/TEL: DSN: 820-0846.
38.   REMARKS: NONE
39.   A   B   C   D   E
      AAED   1,040.40   1,071.61   1,070.61   1.00
40.   REIMBURSABLE/SPECIAL INTEREST HOURS:
      A.   REIMBURSABLE
NONE   39C - 39D
      B.   SPECIAL INTEREST
NONE//   22 / 28 = ACPH
BT
#0424
NNNN   TEC   34C / 28 = GPH   39B X (1.03) = CCPH
                                    Based on price of JP-5

Figure 11. BOR Template (From VAQ-138 Material Control Division, 2007)

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1.   NALCOMIS Aircraft Flight Summary Report

The Naval Aviation Logistics Command Management Information System (NALCOMIS) provides a modern, real time, responsive, computer based management information system.   The three objectives of NALCOMIS are to increase aircraft readiness by providing local maintenance and supply managers with timely and accurate information required in their day to day management and decision making process, reduce the administrative burden on the fleet, and improve the quality of up-line reported data (NAMP, 2005, Vol. III, p. 7-1).

The NALCOMIS Aircraft Flight Summary Report or NAVFLIR, as shown by Figure 13, is printed out by Maintenance Control and kept in a binder with all daily flight hour records during the current month. The MCO uses the NAVFLIR binder to cross check the actual hours flown with the records kept in material control to ensure the accuracy of the data to report in the BOR.   This report shows all hours flown by all squadron aircraft and is recorded in to the NALCOMIS system by the pilot who checked out the aircraft.

```
ORG: VAQ138                                                        DATE  : 29 Oct 07
                                                                   TIME  :: 1114
                            NALCOMIS OMA                           REQ BY: D TOLBERT
                    AIRCRAFT FLIGHT SUMMARY REPORT                 PAGE  : 1
                        (Includes Aircraft Only)
                     FROM 01 OCT 07 TO 29 OCT 07
```

TEC	MODEX	BUNO	TOTAL MSN HRS	TOTAL FLTS	CAT/ JATO	ARREST/ RAST	TOTAL HOISTS	1A	2B	3C	4D	5E	6F	7G	8H	9J	OK	N	P	TOTAL
AAED	500	163887	25.5	13								20	15							35
AAED	502	162228	12.9	7									13							13
AAED	503	162934	31.0	15								12	21							33
** AAED TOTALS **			69.4	35								32	49							81
** TOTALS **			69.4	35								32	49							81

Figure 12. NALCOMIS OMA Aircraft Flight Summary Report (From NALCOMIS Print Out, VAQ-138, 2007)

2. Flight Hour Comparison with Operations Officer

Throughout the month and definitely before the BOR is due, the MCO cross checks material controls records of the current months flight hours with the record kept by the Operations Officer (Ops-O). Working together, they rectify any mistakes or inaccuracies with the monthly total flight hours logged by the squadron. The Ops-O tracks flight hours in order to budget the allotted quarterly hour's directly affecting squadron readiness.

3. Fuel Automated System (FAS) and Base/Ship Fuel Receipts

When the squadron is operating out of its homeport, the fuel received is from the base fuel depot and once a week material control receives all fuel receipts from base customer service (VAQ-138 Material Control Division interview, 2007). These receipts are for every individual aircraft that received fuel from the previous week. On board an aircraft carrier when the squadron is on deployment or exercises, material control fills out two DD Form 1348's and submits them to the ships supply department, S-1 division. The 1348 is a single line item requisition system document used by the Navy to requisition items and to charge the specific unit through their Type Equipment Code (TEC). Material control fills out one DD Form 1348 for the first of the month to the fifteenth, the second from the sixteenth to the last day of the month. This is done so S-1 can accurately charge the squadrons that are on board whenever they receive fuel. If the squadrons come aboard on any other day of the month the 1348 dates will cover the next day after arrival to either the fifteenth or to the end of the month.

The Fuel Automated System (FAS) is a grouping of applications and people working together to create a means to record, report and manage the Department of Defense (DoD) energy business. It is an automated material management system that spans from requirements determination to point of sale, vendor payment and customer billing for all energy commodities (Fuel Automated System (FAS) Overview Course). Material control has one person assigned to access the FAS website to verify, monitor, check, and challenge any 7B fuel charged to the squadrons OPTAR account. The FAS

website posts fuel received by squadron aircraft for in-flight refueling and has to be accounted for by material control for proper recording of fuel dollar expenditures on the BOR.

There are a couple of issues that material control has difficulty when using FAS; the charges that are posted on FAS are not posted immediately after the fuel has been taken by squadron aircraft causing confusion as to when the fuel transfer actually took place, and the document numbers used to charge the squadron OPTAR account are not the same further complicating the process of tracking fuel charges posted on FAS. All of these fuel charges have to be verified and confirmed before the BOR can be compiled and sent out reporting the squadron's expenditures with regards to fuel dollars (VAQ-138 Material Control Division interview, 2007).

4. Summary Filled Order/Expenditure Difference Listing (SFOEDL)

All requisitions made by the squadron that fall under the OFC-01 account are 7F fund codes. The 7F charges/transactions are compiled and sent out on the weekly TL report by material control to DFAS on the due dates provided at the beginning of the FY. Each TL constitutes all individual 7F charges that the squadron made for that week. The four TL totals are reported on the BOR and subtracted from the OFC-01/7F OPTAR grant. The OFC-01/7B OPTAR grant constitutes the funds for the squadron to purchase aviation fuel. The monthly fuel charges are added up from base customer service fuel receipts and FAS transactions are checked for accuracy and reported on the BOR. Both 7F and 7B fund code transactions made by the squadron are posted on the monthly SFOEDL for verification purposes before any outlay of funds is made by DFAS.

The Summary Filled Order/Expenditure Difference Listing (SFOEDL) is sent out to the OPTAR holders by DFAS on or about the fifteenth of every month individually listing all squadron charges/transactions in document number sequence from both fund codes 7F and 7B. OPTAR holders will accept and post to the Requisition/OPTAR Log all difference listing followed by reviewing the listing and annotating transactions considered invalid with the appropriate rejection code. Valid rejections will be reversed with a correction transaction by the fleet accounting office and will appear on a later

SFOEDL (NAVSO P-3013-2, 1990, p. 4-104). The SFOEDL covers the previous month charges but can include up to three years of data separated by FY mainly due to floating charges. Floating charges are unfilled orders (charges) that have not posted yet but will eventually show up on the SFOEDL and need to be accounted for.

The Requisition/OPTAR Log is established by each ship, aviation squadron or command to record OPTAR grants and the value of transactions incurred as chargeable to the type commander's operating budget. The Requisition/OPTAR Log parallels and provides a check on the official accounting records maintained at the fleet accounting office. OPTAR grants will be entered in the Requisition/OPTAR Log and reduced by the value of chargeable requisitions (NAVSO P-3013-2, 1990, p. 4-25).

Throughout each month the MCO delegates these responsibilities to personnel assigned to material control ensuring that the data reported on the BOR is verified, checked, and accurate; trust but verify is always a good motto. Figure 14 below is a diagram depicting the flow of accounting data from the OPTAR holder (the squadron) to all the pertinent agencies involved.
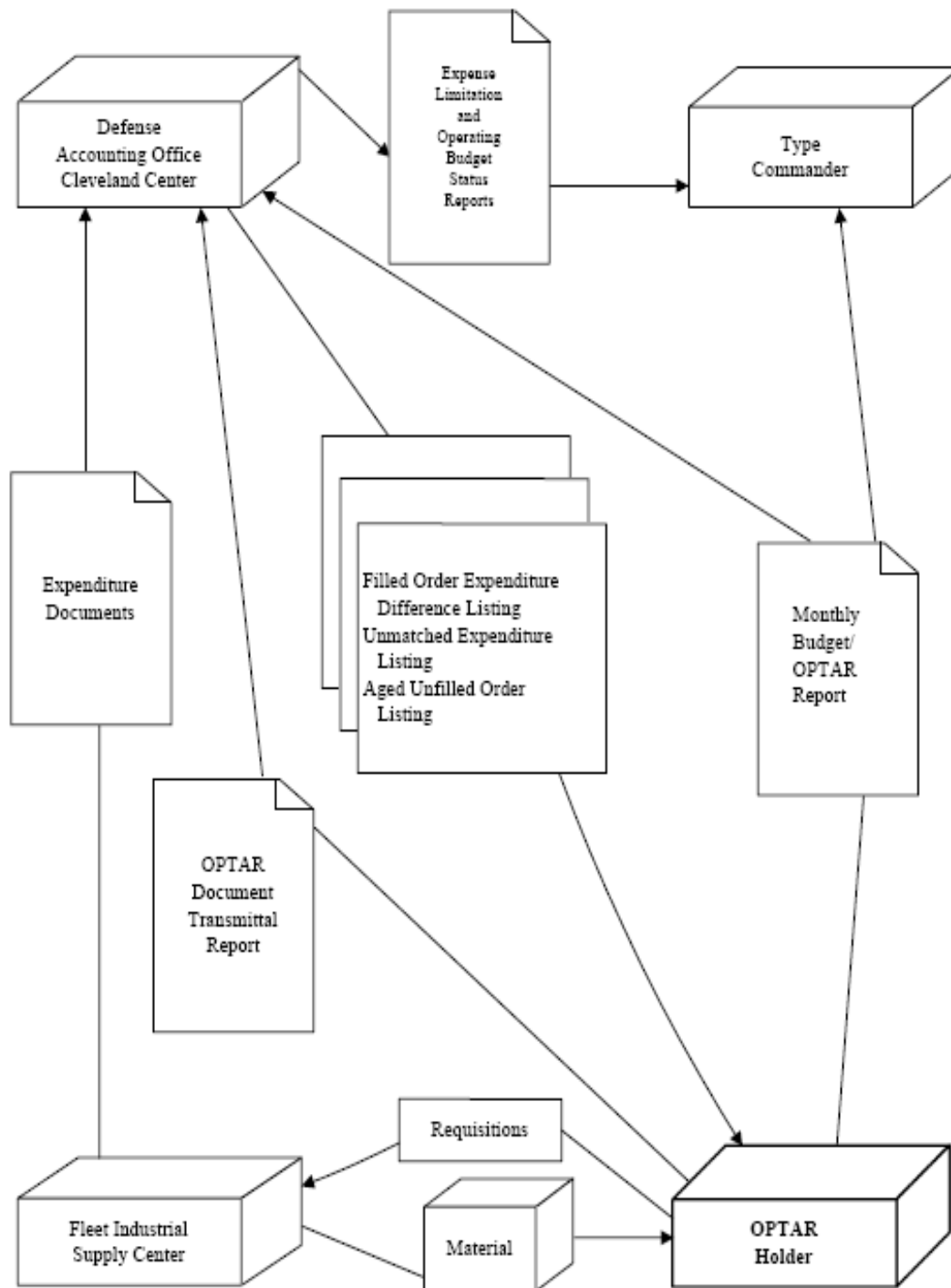
Figure 13. Flow of Accounting Data (From NAMP, 2005, Vol. I, p. 12-62)

D.   OPERATIONS OFFICER PLANNING

The squadron operations officer is in charge of planning and scheduling the flight hours among the entire aircrew ensuring their operational readiness. During the research period for this professional report, VAQ-138 was operating at 40 percent primary mission readiness (PMR) level where their allotted quarterly flight hour was 221. Along with the OP-20 mentioned in chapter two, final distribution of funding to fleet squadrons is calculated by matching squadron flying "activity levels" with that of the Chief of Naval Operations (CNO) PMR goal. An activity level indicates a phase of employment for a squadron during its 18 month "turn-around cycle."   The turn around cycle is the period used for scheduling aircraft deployments, along with all the requisite aircraft and airwing training in preparation for deployment (Philips, 2001, p. 31). Through the 18 month turn-around deployment cycle the level of squadron flight hours vary and are funded by the schedule below (Philips, 2001, p.31):

- Month 1:   Personnel turnover and leave   40% PMR
- Months 2-6:   Turn-around training   65% PMR
- Months 7-10:   Turn-around training   75% PMR
- Months 11-16: Pre-deployment training   95% PMR
- Month 17:   Pre-deployment Stand down   50% PMR
- Deployment Month 1:   70% PMR
- Deployment Months 2-5:   115% PMR
- Deployment Month 6:   60% PMR

The overall goal of VAQ-138 Ops-O is to have 6 crews consisting of 4 aircrew men each and to evenly distribute the flight hours among these crews to optimize overall squadron readiness (VAQ-138 Operations Officer, 2007). During the various phases of the turn-around cycle, Electronic Attack squadrons have anywhere from two to four aircraft assigned to them.   On Months 11-16 and during deployment months, the squadron operates with four aircraft. At the time of the research for this professional report, VAQ-138 was operating at 40 percent PMR, had three aircraft assigned, two in

operational status, the third on post deployment phase maintenance and the fourth transferred to another squadron getting ready for their deployment cycle. The operations officer keeps track of the flight hours received and expended for budgeting and training purposes cross checking with the MCO for accuracy. If more hours are required towards the end of a given quarter, the squadron Ops-O sends a message to the airwing operations officer (CAG Ops-O) requesting additional flight hours. The CAG Ops-O transfers flight hours between the squadrons who have a substantial amount left over and can afford to give up the required hours. This "give and take" transfer of flight hours between squadrons is handled at the CAG level and redistributed to achieve the individual required squadron readiness and CNAP is informed so they can adjust their records. If the other squadrons do not have extra hours that they can not execute, the squadron request is then forwarded to CNAP, by CAG for an augment (CAG-9 Email Correspondence, 2007).

E.   CHAPTER SUM MARY

This chapter analyzed the squadron BOR and the numerous tasks involved in compiling and putting together all of the requirements that constitute it. It summarized and tied in the responsibilities of the MCO and Ops-O in formulating the BOR from recording the flight hours, 7F and 7B charges and verifying all charges posted on the SFOEDL. The steps taken on a daily basis by the MCO to track all of the items mentioned above is paramount in formulating an accurate BOR. The TYCOMS utilize the data in the BOR for accounting purposes ensuring that the current squadron OPTAR grants are reported accurately and forecast for future flight hours within the FHPS.

IV.   CONCLUSION

A.   INTRODUCTION

The purpose of this professional report is to examine the Material Control Officer's role and responsibilities and to provide a ready, one source reference for both the Micro (squadron) and Macro (CNAF & DoN) level of operations. Chapter II covered the federal budget process, the DoD funding and the PPBES process and the Navy FHP to establish the background needed to understand the macro level of operations. Chapter III examined the micro level of operations consisting of squadron procedures and the challenges faced by the MCO in complying with the rules, regulations and procedures set forth by their respected TYCOMS and by CNAF. This chapter will provide answers to the research questions, present a conclusion and suggest topics for further research.

B.   PRIMARY RESEARCH QUESTION

What is the Squadron's Role and Responsibilities Regarding the Navy Flying Hour Program?

The Navy Flying Hour Program is part of the O&M, N appropriation and funds the day to day operational activities or air operations of Navy squadrons. The squadron's role and responsibility regarding the FHP consists of timely and accurate submission of the monthly BOR report. The TYCOMs utilize the squadron BOR for accounting purposes of the current FY OPTAR grant, flight hour expenditures and for future projection of the FHP.

C.   SECONDARY RESEARCH QUESTION

What are the Responsibilities and Primary Tasks of the Squadrons Material Control Officer Related to Financial Management and Management of the FHP?

The squadron CO is responsible for the efficient and effective use of funds and delegates this responsibility to the MCO. Besides managing the squadron OPTAR, the

MCO is also the material control division officer, the TCP manager and IMRL manager but has the primary task of managing the squadrons OPTAR fund and reporting of the BOR. Throughout the month while the squadron incurs both 7F and 7B charges against its OPTAR, the MCO has the challenge of compiling all the data for each month of operation and submitting the BOR. This includes the flight hour information in NALCOMIS through the use of NAVFLIRs, concurring with the Ops-O on the number of hours flown for the current month, accounting for all the fuel charges through FAS and fuel receipts received from base customer service, and the SFOEDL.

D.   CONCLUSION

The budget process is one of enormous and complex tasking that the DoD and DoN endures each year. The Navy FHP is a huge piece of the DoN O&M, N budget appropriation and requires accurate data from the operational units to account for the current FY usage and to plan for future projections of the FHP. This project identified and explained the areas of importance to the MCO in complying with the rules and regulations set forth by the TYCOMs, the importance of the individual unit BOR as an integral part in the overall Navy FHP and how the budget process affects funding at the macro and micro level of operations.

E.   SUGGESTIONS FOR FURTHER RESEARCH

1.   Tracking of in-Flight Fueling Charges

The current process for in-flight refueling charges is posted in the Fuel Automated System (FAS) and the squadron has to access FAS in order to account for all pending fuel charges. When dealing with FAS, squadrons face numerous problems such as the matching of document numbers between the squadron paperwork and FAS documents, charges posted on FAS do not comply with actual dates of fuel transfer, and late posting of charges. The recommended research would further identify these problem areas between the FAS system and the squadron in order to display real time data so there is zero lag time between the transfer of fuel and the apparent charges that follow.

**2.   Is there any Correlation Between Aircrew Mishap Rate and the
Number of Flight hours Provided by the Navy FHP?**

This would fall under the Operations Research (OR) department at Naval Postgraduate School using data analysis to see if there are any statistical correlations between the two. The mishap data would come from the Naval Safety Center and flight hour information from Commander Naval Air Forces (CNAF), particularly from the Aviation Financial Analysis Tool (AFAST) where past squadron flight hour data/expenditures are recorded. This research would indicate if the aircrew mishap rate has a connection to the amount of flight hours received directly affecting squadron readiness with a possible corrective action of increasing the flight hours budgeted to the affected squadrons.

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